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Yen Weakens In Face Of Economic Uncertainty

The one safe prediction concerning currency markets is that they will confound the experts. That statement was no truer than in late winter when the yen reversed course and began weakening. As a result of seven straight months of appreciating and after almost breaching the ¥120=$1.00 threshold, which would have established a new record high, the yen ended January at ¥125.8=$1.00. In February and March, however, the Japanese currency beat a retreat; as measured by its closing New York average the yen ended February at ¥129.5 and by March 31 was at ¥132.8 — close to its 1991 average value of ¥134.6 vis-a-vis the dollar.

The reversal of the yen's exchange rate reflects, in part, twists and turns in worldwide economic conditions. In the last months of 1991 Japan and other major industrial nations shared the misery of weak economies. Since policymakers in Tokyo and Washington took comparable monetary measures to spur their respective economies by cutting interest rates in late December (see *JEI Report* No. 1B, January 10, 1992), interest rates in Japan changed little relative to those in this country. As long as this remained true, international investors had little incentive to shift their preferred locations for investment. As a result, currency movements reflected factors other than interest rates.

But by February and March of this year the U.S. economy had entered the early stages of a weak recovery, arguably reflected in rising long-term interest rates. The Japanese economy continued to weaken, and the clamor increased for the Bank of Japan to lower the discount rate. Toward the end of March the central bank gave some indication that it might do so and actually took the plunge April 1, dropping the rate 0.75 percentage point to 3.75 percent, effective immediately. In this

Ministry of Labor has been urging firms to cut average annual working hours to 1,800 by the end of FY 1993 (March 31, 1994); this is a tall order given that the 1991 average of 2,022 hours was just 30 hours below that of the year before (see *JEI Report* No. 8B, February 28, 1992). Nikkeiren opposes this standard goal, arguing that individual firms have differing needs and should be allowed freedom to set work hours. Nikkeiren sees a level of 1,950 (comparable to the annual averages in the United States and Britain) as a reasonable target. In this year's wage talks settlements on nonwage issues announced to date include: a commitment by big integrated steel companies to add two or three extra days of paid holidays each year; agreement by Matsushita Electric Industrial Co., Ltd. to work toward the 1,800-hour goal by FY 1993 (the current average in the consumer electronics industry is 1,970 hours); and a pledge by automakers, which are most notorious for heavy overtime, to cut working hours from the current average of 2,200 to below 2,000 by the end of FY 1993.

Dissatisfaction by both labor and management with the *shunto* tradition intensified in 1992. Disparities in profits among industries and among firms within industries have become more acute. Lagging firms complained that a uniform wage settlement ignored their special situations. Labor unions have used similar arguments about flexibility to attack the spring tradition, arguing that companies that are doing well should offer higher wage hikes. A weakening or breakdown of the *shunto* tradition would have broad effects, including: widening the variation in labor costs among industries and among firms within an industry; expanding the variation in income growth among workers in different industries; renewing the importance of labor unions (economically and politically) as bargaining could become more substantive and less *pro forma;* and eroding the amicable labor-management relationship that has been considered one of the great strengths of the Japanese economy.

The wage negotiations are not yet complete, leaving open the possibility of Japan-style labor strife (symbolic strikes). The general outlines of this year's wage talks, however, are set. Not only will a modest increase in real wages sustain the growth of personal consumption and thereby keep the economy from sinking into a deep recession, but the sufficiently small hike works to allay BOJ fears about wage-push inflation.

Jon Choy

LDP, Miyazawa Boosted By Gunma Victories

Prime Minister Kiichi Miyazawa and the ruling Liberal Democratic Party bounced back after two successive defeats in by-elections earlier this year and seized both lower house seats contested in a March 29 special election in Gunma prefecture. This outcome surprised some pundits who had been skeptical about whether the ruling party could break its losing streak and Mr. Miyazawa, in turn, could hang onto the reins of government much longer.

The defeats of LDP-backed candidates in the February 9 by-election in Nara prefecture and the March 8 contest in Miyagi prefecture, both for upper house seats, were attributed widely to public disgruntlement with the ruling party's recurring involvement in money and bribery scandals (see *JEI Report* No. 10B, March 13, 1992). Various public opinion polls conducted prior to the Gunma contest, in fact, showed that Mr. Miyazawa's approval rating had plunged some 15 to 20 percentage points since December due to respondents' dual dissatisfaction with Japan's scandal-ridden politics and the prime minister's inability to affect Diet action on important domestic and foreign policy initiatives.

Confounding those analysts who had questioned whether the LDP could retain even the seat previously held by a ruling party delegate were voters who also awarded the second vacancy — previously held by a member of the Social Democratic Party of Japan— to an LDP candidate. While the prime minister is hardly home free, his party's success in the recent Gunma contest may buy him the time he needs to shepherd through the parliament a few key initiatives before voters throughout Japan go to the polls in July to select upper house representatives. High on Mr. Miyazawa's legislative priority list are proposals that would reform the Japanese political system

and that would authorize Japanese participation in United Nations-sponsored peacekeeping operations.

Mr. Miyazawa said in a statement following the victories of Yoshio Yatsu and Yojiro Nakajima that he was "offering heartfelt thanks to voters for the LDP's victory." The prime minister added that as the year unfolds he plans to tackle such "key themes" as political reform, management of the economy, enhancing society's affluence and Japan's international contributions. LDP Vice President Shin Kanemaru, who was largely responsible for propelling Mr. Miyazawa to the premiership, concurred that the Gunma outcome was "very meaningful for the future of Japan."

The LDP doyen also hinted at one reason the LDP fared well in this election. The LDP "could score the victory not because the ruling party was good, but because the SDPJ was too bad," Mr. Kanemaru reportedly stated. In the Nara and Miyagi contests the opposition parties had sought to capitalize on the arrest on bribery charges of one of Mr. Miyazawa's close associates as well as reports that a number of LDP members had received money from Tokyo Sagawa Kyubin Co., Ltd., a company that allegedly has ties to organized crime. In recent weeks, however, it has become increasingly apparent that certain members of the political opposition also have received questionable political donations, particularly from Tokyo Sagawa. Thus, since none of the political parties appears to be above reproach, analysts suggest that the electorate evidently decided not to cast "anti-LDP, retaliatory votes" but instead back candidates from the party with the most governing experience. Concerns about Japan's flagging economy also may have compelled voters to stick with the LDP rather than endorse the candidate of a party with untested leadership experience.

The Gunma gains boost the LDP's membership in the 512-seat House of Representatives to 279; that number dwarfs the SDPJ's 137 members, Komeito's 46, the Japan Communist Party's 16, the Democratic Socialist Party's 13 and the United Social Democratic Party's 5 (see Table). Mr. Yatsu, who

Party Alignments in the Japanese Diet

(March 29, 1992)

House of Representatives	
Liberal Democratic Party	279
Social Democratic Party of Japan	137
Komeito	46
Japan Communist Party	16
Democratic Socialist Party	13
United Social Democratic Party	5
Rengo	0
Minor Parties	0
Independents	6
Vacancies	10
Total	512
House of Councillors	
Liberal Democratic Party	113
Social Democratic Party of Japan	71
Komeito	20
Japan Communist Party	14
Democratic Socialist Party	10
United Social Democratic Party	0
Rengo	13
Minor Parties	4
Independents	5
Vacancies	2
Total	252

previously served in the House of Representatives and decided to make another run for a lower house seat, garnered 106,600 votes, while Mr. Nakajima, a former reporter for Japan Broadcasting Corp. (NHK), received 89,066. Toshie Sunaga, the SDPJ-backed candidate, came in third with 66,432 votes. Keiji Kosuge, who ran on the Japan Communist Party ticket, brought up the rear with 6,854 ballots.

Barbara Wanner

Official's Visit Highlights Future Japan-South Africa Relations

The March 23-24 visit to Japan of South Africa's minister of foreign affairs provided a timely opportunity for discussions regarding the future of Japan's relations with that country. Roelof Frederick Botha's Tokyo meetings came the week after South African whites voted overwhelmingly in support of President F.W. de Klerk's efforts to reform Pretoria's racially discriminatory political system. Among several factors believed to have contributed to the success of the referendum were the threat of renewed economic sanctions and other international responses reflecting opposition to the policy of apartheid. Japanese business representatives were among those warning that bilateral economic relations would suffer if voters rejected Mr. de Klerk's reforms.

Japan had lifted most economic sanctions on South Africa last October (see *JEI Report* No. 41B, November 1, 1991) and in mid-January established immediate, full diplomatic relations with Pretoria (see *JEI Report* No. 3B, January 24, 1992). The Japanese government March 6 named former Consul General Masatoshi Ota as Japan's first ambassador to South Africa.

In talks with Mr. Botha Foreign Minister Michio Watanabe welcomed the results of the March 17 referendum. His South African counterpart reported that the Convention for a Democratic South Africa, a forum of 19 political parties participating in negotiations aimed at crafting a new constitution for the country, is expected to appoint an interim cabinet soon after an April meeting.

During his visit Mr. Botha also called on Japan to increase its support for the economic development of nations in Africa's southern tier, including South Africa (see Table). He cautioned that, without economic growth in his own country, unrest could undermine the process of political reform. Ministry of Foreign Affairs spokesman Masamichi Hanabusa noted in a March 24 press conference, however, that Tokyo would face "technical obstacles" in providing financial assistance to South Africa because of its relatively high per capita income. Citing earlier Japanese government efforts to invite trainees to Japan from South Africa's black communities, Mr. Hanabusa said Tokyo may consider bringing more trainees. "I think our cooperation will be primarily in the area of technical assistance," he added. Mr. Botha noted that Japan and South Africa intend to increase scientific and cultural exchanges. Japan suspended certain restrictions on personnel exchanges between the two countries last June (see *JEI Report* No. 24B, June 28, 1991).

Mr. Hanabusa also addressed an anticipated June visit to Japan by President de Klerk. Pointing out that the two countries have no particular bilateral issues that need to be settled, the Foreign Ministry spokesman described the visit as an opportunity to encourage the South African leader to "have the courage to continue" with his political reforms. Leaders of both countries also will be able, Mr. Hanabusa said, to discuss various means of promoting bilateral relations and cooperating to "contribute to a better standard of living in South Africa and in neighboring nations."

While in Japan Foreign Minister Botha assured business interests there that the de Klerk government is committed to maintaining a free market structure in South Africa. Alluding to international concerns that led Tokyo to place restrictions on its transactions with South Africa in the mid-1980s, he also asserted: "No one can turn around in the rest of the world and say to Japan you should not trade with an apartheid government. Those days are gone." Japanese government officials have indicated that they expect the success of the de Klerk referendum to have a positive impact on

Japan's Official Development Assistance to Southern Africa, 1986-90

(in millions of dollars)

Country	1986	1987	1988	1989	1990
Angola	$0.5	$1.4	$-2.0*	---	$0.0
Botswana	1.2	0.1	20.5	$11.3	0.7
Lesotho	0.6	2.2	1.2	0.6	0.8
Malawi	16.1	51.5	38.1	21.6	41.9
Mozambique	15.5	17.6	14.8	51.1	16.9
Namibia	---	---	---	---	0.2
Swaziland	0.5	0.2	0.04	0.02	0.1
Zambia	52.2	41.7	90.6	63.0	40.1
Zimbabwe	4.3	8.8	26.1	20.4	25.8

*Reflects repayment of loans.

Source: Ministry of Foreign Affairs

private-sector initiatives toward South Africa. Japan's business community remains somewhat cautious, however, worried about South Africa's political stability.

Various representatives of corporate Japan are continuing to prepare for improved business relations with South Africa and other nations in the region. Last April Keidanren (Japan Federation of Economic Organizations) dispatched a mission to South Africa to study social and economic conditions there (see *JEI Report* No. 19B, May 17, 1991). Between May 9 and May 23 the chairman of Keidanren's African Committee will lead another mission of representatives from Japanese manufacturing, trading and financial firms as well as officials from the Export-Import Bank of Japan, the Overseas Economic Cooperation Fund and the Ministries of Foreign Affairs and International Trade and Industry. A senior Keidanren official had warned prior to the March 17 referendum that the group "may have to suspend the [May] mission if the whites vote 'No' to President de Klerk's apartheid reforms and South Africa will face isolation again."

Soon after the nearly 69 percent vote in favor of reforms, Keidanren announced plans to proceed with the visit to South Africa as well as the Republics of Zambia, Zimbabwe and Botswana. The group's meetings with government and business leaders will be aimed at "deepening its understanding of the present political and economic situation, economic policy and investment climate in those countries," according to the Foreign Ministry's Mr. Hanabusa. The group also will discuss economic development in the region, Mr. Hanabusa said, "to explore the possibility of Japan's cooperation with those countries."

Keidanren's mission to South Africa last April reported that the country serves as a center for progress in the region, a conclusion that parallels Foreign Minister Botha's remark to Japanese officials that his country wants to act as the engine for the economic development of Southern Africa. Stability in South Africa itself naturally will effect the region's economic growth. The next few months may be critical to whether Japan's public and private sectors offer additional help to shore up Pretoria's restructuring efforts.

Margo Grimm

Notes

JAE Settlement - The case of the U.S. government against Japan Aviation Electronics Industry, Ltd. came to a close March 11 when the avionics manufacturer pleaded guilty to 10 counts of a 22-count indictment and agreed to pay $15 million in fines and penalties. Last September U.S.